THE CARIBBEAN

Bahamas

The Bahamian economy is estimated to have grown modestly during the second quarter of 1999, in a climate of mild inflation. Renewed growth of tourism, together with significantly higher fishery exports and a more active construction sector, helped to underpin economic activity, with tighter consumer credit remaining a major policy thrust. Monetary expansion (4.8%) remained steady in 1999 and there were improvements in nearly all the main components of the balance of payments.

Government economic policy in 1999 wasfocused on a programme of social spending and tax reforms, with expenditures directed at health and education, the criminal justice system, social services, youth and the environment. At the end of the second quarter, the overall public-sector deficit had grown, as revenues were hit by the tighter consumer credit regime implemented since 1998. A number of tax measures were taken in order to meet the budgetary commitments, including a rise in real-estate stamp duties and higher taxes on luxury automobiles and hotel accommodation. Steps were also taken to improve tax administration.

The money stock expanded by 4.8% to US$ 144.2 million. All components of the money supply grew except foreign currency deposits, which declined by 2.0%. In line with the increased money supply, domestic credit expanded by 2.9% compared with its level in the first quarter of 1998, but this was less than the 3.2% growth registered for the same period a year earlier. The Central Bank lowered the official interest rate by 75 base points in the second quarter of 1999, in order to boost mortgage lending. Lending to the private sector grew by 2.6%, compared with 3.0% in the first quarter of 1999, and bank lending to the public sector was estimated be up by 14.7% at the end of the second quarter of the year.

Economic activity was underpinned by a strong recovery in tourism. The total number of tourists arriving in the Bahamas rose by 11.5% in the second quarter, to 944,960 visitors, following a 4.7% drop in the same period in 1998. Increased cruise line traffic to New Providence in 1999 pushed seaborne arrivals up by 8.7% to 527,115 passengers, compared with a 5.1% decline a year earlier. Tourist expenditure estimates for the second quarter of 1999 point to a significant increase over the same period in 1998, as a result of higher-quality hotel accommodation, higher hotel prices and an increase in tourists' average length of stay. Although the average hotel occupancy rate fell slightly to 76.4%, estimated revenues grew by 45.2%, to US$ 78.3 million. This upward trend is expected to continue for the rest of 1999. However, delays in hotel modernization and fewer cruise ship arrivals depressed activity in Grand Bahama, where the slump in tourist arrivals deepened to 17.9% in the second quarter of 1999, compared to 0.2% in 1998, with 3.8% fewer visitors arriving by air and a 24% drop in cruise ship traffic.

First quarter data for 1999 show that construction activity remained buoyant, partly thanks to projects begun in late 1998. Construction starts in the first quarter of the year fell by 16.1% to 298 units valued at US$ 37.6 million. Building completions in 1999 were up by 3.3% on the previous year's figure, but their value (US$ 58.3 million) was 59.7% higher.

The value of fishery exports grew by 12.0% to US$ 24.8 million in the first half of the year, thanks to an 18.9% increase in volume (1,100 tons), even though average prices fell by 5.8% to US$ 10.03 per pound. The value of crawfish exports grew by 12.9% to US$ 22.7 million (equivalent to 91.6% of total export earnings), with the volume increasing by 28.0% to approximately 1,000 tons.

The 12-month inflation rate rose to 1.4% in June 1999, compared to 0.8% the previous year. This increase was attributable to a substantial rise in prices during the first quarter of 1999 which affected most consumer goods, including education expenses, recreation and entertainment. Inflation, as measured by changes in the retail price index, eased back to 0.1% in the second quarter, compared to 0.6% for the same period in 1998.

According to preliminary second quarter estimates, the balance-of-payments current account deficit narrowed significantly to US$ 75.4 million, compared with US$ 174.9 million a year earlier. This result reflected a decline in the demand for foreign goods and services as a large-scale investment project came to completion, together with a considerable boom in estimated net earnings from tourism.

The merchandise trade deficit is estimated to have narrowed by 7.4% to US$ 306.3 million – a reduction of US$ 24.6 million – with non-oil imports falling back by 8.2% to US$ 371.4 million. This reduction in imports comfortably offsets the estimated 7.3% drop in export earnings, which in mid-1999 amounted to US$ 65.1 million. The value of oil imports for domestic use increased by 1.0%, to US$ 39.3 million.

The surplus on the services account is estimated to have increased by US$ 76.6 million to US$ 269.3 million in the second quarter of 1999. Net income from tourism grew by about 8.5%, to US$ 362.0 million, thanks to a recovery in stopover (non-cruise) traffic. Furthermore, with the completion of a large tourist project, net payments for foreign construction services dropped by 50.6% to US$ 22.2 million, leading in turn to a 43.4% fall in net outflows corresponding to "other services", which went down to US$ 70.7 million.

On the current transfers account, net outflows relating to private-sector investment rose to US$ 1.3 million. Net transfers to general government increased, with inflows amounting to US$ 10.1 million. The capital and financial accounts, excluding reserves, decreased by US$ 60 million in the second quarter to an estimated US$ 67.8 million. These transactions had significant repercussions on the overall balance of payments, which stood at US$ 64.4 million at the end of June 1999.

Barbados

Following six years of uninterrupted growth, economic activity lost some of its momentum, and growth is estimated at 2.5% for the first nine months of 1999 compared with 4.7% for the same period a year earlier. Growth was led by the non-tradeable sectors, especially construction and wholesale and retail trade, whereas there was a slight contraction among tradeables. Slower real growth of exports and higher import expenditures resulted in a larger current-account deficit at the end of the third quarter. Exports are expected to recover in the final quarter to register growth of about 2% in 1999 as a whole. Inflation remained low, but the monetary authorities nevertheless applied a tighter policy in view of the increased trade and fiscal deficits.

Economic policies were aimed at preserving the prevailing growth climate and keeping inflation and unemployment at low levels. The main thrust of official strategy, as set out in the 1999/2000 budget, was to improve the country's competitive position. Total fiscal revenues increased by 4.5% in the first nine months of 1999, thanks to higher tax revenues, while expenditure rose by 4.6% in the wake of higher capital spending, mainly related to a wide-ranging programme of highway rehabilitation and extensive airport reforms, and transfers to the Barbados Agricultural Development and Management Corporation. As a result, there was a fiscal deficit of 44.6 million Barbados dollars (BDS$) (US$ 22.3 million), which was BDS$ 3.5 million (US$ 1.8 million) higher than in 1998.

Commercial bank lending to the private sector increased, and this may have been a factor in the strong import growth. Net new lending to the private sector grew by BDS$ 180.2 million (US$ 90.1 million), compared with the BDS$ 126 million (US$ 63 million) recorded in the first three quarters of 1998 and the average of BDS$ 113 million (US$ 56.5 million) over the period from 1994 to 1998. In order to control this surge in domestic demand, the Central Bank of Barbados tightened monetary policy for the commercial banks by raising its discount rate from 9% to 10% and increasing the reserve requirement on deposits from 5% to 6% as from 31 May 1999. It also withdrew approximately BDS$ 20 million (US$ 10 million) in deposits it was holding in the banking system, and invested the proceeds in foreign stocks. A further BDS$ 20 million (US$ 10 million) was withdrawn from circulation through net placements of new State securities.

Domestic deposits declined by an estimated BDS$ 78.2 million (US$ 39.1 million) during the third quarter, but grew by some BDS$ 162.2 million (US$ 81.1 million) in the first nine months as a whole, compared with growth of BDS$ 195 million (US$ 97.5 million) a year earlier. Excess liquidity stood at 5.8% of domestic deposits at the end of September 1999. Interest rates on Treasury bonds rose to 5.9% at the end of that month, compared to 5.7% at the end of December 1998, reflecting the tighter liquidity conditions; other interest rates remained relatively stable.

The first three quarters of 1999 saw a sharp downturn in cruise liner tourism and slower growth in the manufacturing sector. The figures show that tourism shrank by 1.4% during the period, in contrast to the average growth rate of 3.8% recorded over the six

BARBADOS: MAIN ECONOMIC INDICATORS

	1997	1998	1999[a]
	Annual rate of variation		
Gross domestic product	2.6	4.8	2.5
Consumer prices	3.6	1.7	2.0
Real effective exchange rate[b]	-5.8	1.8	-0.1
	Percentages		
Unemployment rate	12.2	11.8	10.6

Source: See the statistical appendix.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

previous years. Long-stay arrivals increased by 1.3%, even though two large hotels closed down, but cruise-ship visits were down by 21.2%. Manufacturing output dropped by 1.5% in the first nine months of 1999, with all subsectors down except non-metallic mineral products and food processing, which grew by 5.7% and 1% respectively. Data for the first half of 1999 indicate that sugar production expanded by 10.4%, with a yield of 53,000 tons, in contrast with its sharp 25.7% downturn in 1998.

Construction output grew by approximately 5.3%, as projects under way in the public and private sectors began to reach completion. The wholesale and retail trade sectors grew briskly by 4.3%, although not quite as fast as the previous year owing to the weaker demand resulting from the downturn in tourism and official policies designed to forestall overheating of the economy. Oil production was up by an estimated 80.5% in the first half of 1999, about twice the previous year's growth rate, as the enhanced secondary recovery program resumed in April, following its suspension two months earlier.

Unemployment stood at 10.6% at the end of the second quarter of 1999 – 1.5 percentage points lower than a year earlier. The services sector was the main creator of new jobs. Insufficient data is available to determine wage movements in 1999 with any precision, but these were clearly favoured by collective bargaining agreements concluded in 1998, which produced increases of between 3.0% and 5.0%.

Inflation remained low, although the retail price index edged up by 1.2% at the end of September, compared with its 0.7% fall during the first three quarters of 1998. The rise in inflation was mainly due to price hikes for foodstuffs and housing, while the withdrawal of excess liquidity from the economy helped to ease demand pressures.

The balance-of-payments current account deficit widened during the first nine months of the year, compared to the same period in 1998. Imports that were not re-exported grew by about 7.5%, up from 4.6% in 1998. Total imports of consumer and capital goods grew by 11.3% and 17.4% respectively, while imports of intermediate goods fell by 2.6%. Income from locally produced exports grew by 1.7%, while earnings from tourism declined by 1.5% after having risen by 8% in the same period a year earlier. Private-sector capital inflows totalled US$ 103 million (US$ 51.5 million), most of which was invested in tourism projects and public-service companies. Net international reserves held by the monetary authorities increased by US$ 78.3 million, partly due to loans totalling US$ 75 million raised on regional capital markets. The reserves stood at US$ 336 million at the end of the third quarter, which was sufficient to cover 15.7 weeks of imports, compared with 13 weeks' coverage in the same period in 1998.

Cuba

Productive activity recovered strongly with growth of 6% in 1999. The balance-of-payments current account deficit narrowed to 1.3% of GDP, and the fiscal deficit remained under control (2.6% of GDP), all of which helped to keep the exchange rate and prices stable (0.7% inflation). On the other hand, accumulated monetary liquidity, which was virtually unchanged from the previous year, remained high as a proportion of GDP (35%). Economic growth was boosted by a recovery in the sugar industry, together with a marked increase in international tourism, a better performance in the energy sector and a further increase in nickel output. Weather conditions were favourable to agriculture, and certain restrictions on external and domestic financing were eased.

Although increased flows of foreign direct investment and family remittances were reported, the scarcity of foreign currency continued to restrict leeway in economic policy. The fiscal deficit is estimated to have widened to 2.6% of GDP (2.2% in 1998), as expenditure (7.2%) grew faster than revenue (6.8%). Current spending rose significantly, but capital expenditure was unchanged from 1998. There were wage increases in sectors such as education and public health. The recovery of the agricultural sector and the sugar industry made it possible to reduce subsidies for covering losses by public sector companies and to cut back on budgetary assistance to Basic Cooperative Production Units (UBPCs), which are cooperatives set up on former State land. Social security expenditure continues to weigh heavily on the country's fiscal balance. On the revenue side, there were higher receipts from the taxes on profits, labour-force use, circulation and sales.

The amount of currency outside banks was virtually unchanged and the price control policy was maintained; the parallel exchange rate went down to 20 pesos per dollar, while the official rate remained unchanged at one peso per dollar. In 1999 the national banking system lent more than US$ 1.3 billion to productive entities, compared with US$ 1 billion in 1998. In the three-year period 1997-1999, medium- and long-term external loans amounting to US$ 500 million were obtained and used for the purchase of equipment for the sugar industry, airport construction, and development of the telecommunications system.

Although private sector self-employment declined, the process of opening up to foreign investment continued in the real estate and energy sectors, and the restructuring of the banking system was continued. As many as 370 mixed enterprises have now been set up, and bilateral agreements for investment protection have been signed with 44 countries.

The recovery in production made it possible to make up some of the shortfalls accumulated since the beginning of the decade. Global supply increased substantially, thanks mainly to the 6% growth in output, as goods and services imports grew more slowly (3%). On the demand side, external sales were more buoyant (10%) than domestic demand (3.6%); investment expenditure was up by 18%, while consumption grew more modestly (2%). Domestic sales in foreign currency rose strongly, since over 60% of the population had access to them. Priority continues to be given to capital formation in foreign-currency-generating activities, such as tourism and telecommunications, and in import-substituting

CUBA: MAIN ECONOMIC INDICATORS

	1997	1998[a]	1999[a]
	Annual rate of variation		
Gross domestic product	2.5	1.5	6.0
Consumer prices	1.9	2.9	0.7
Nominal parallel exchange rate	19.8	-8.7	4.8
	Percentages		
Unemployment rate	7.0	6.6	6.0
Fiscal balance/DP	-1.9	-2.2	-2.6
	Millions of dollars		
Exports of goods and services	3 882	4 182	4 340
Imports of goods and services	4 628	4 800	4 940
Current account	-437	-396	-350
Capital account	458	413	380

Source: See the statistical appendix.
[a] Preliminary estimates.

sectors (energy). In contrast, activities not related to the foreign currency circuit, such as housing and transport (including the highway infrastructure), continue to suffer from a scarcity of funds for investment.

Widespread growth was reported in all productive activities, especially tourism (15%), agriculture (11.1%), manufacturing industry (9.1%), construction (8%), and commerce (6.2%). Financial services (5.1%) and mining (3.2%) expanded less rapidly.

Tourist activity continues to grow rapidly, but it still has a high imported component (50%). Gross income from this source increased by 20% as a larger number of visitors entered the country (1.7 million); there were increases in both the number of rooms available for international tourism and their occupancy rate (67%).

In the agricultural sector non-sugar activities grew faster (18%) than the sugar segment (13%). The sugar industry registered a 23% recovery as the 1998-1999 sugarcane harvest produced 3.8 million tons, 19% more than in the previous season. However, 25% of the sugar mills had to be shut down because of technical obsolescence, more intensive use of the best centres, or the rescheduling of supplies. The 1999-2000 sugarcane harvest is expected to be over four million tons, which should help to improve the island's financial situation, since sugar output serves as collateral on foreign loans.

National oil production increased by 12% to 2 million tons, and associated gas extraction was 3.2 times higher than the previous year's figure, thanks to production incentives and opening up to foreign investment. This covers one-third of the country's energy consumption, including 50% of its electric power requirements, so interruptions to electricity services decreased.

Nickel output rose for the fifth year running (by 3%), to 70,000 tons, thanks to factors such as technological modernization, the execution of investments, higher international prices and the establishment of a mixed enterprise with Canadian capital.

Consumer prices remained virtually unchanged, rising by only 0.7%, and no price changes were reported in the controlled market except in the State-run restaurant network. Prices fell in both the agricultural market and in the informal economy.

The average monthly wage increased by 6%, benefiting 60% of the public sector, although real purchasing power is still below that of 10 years ago. Labour productivity increased by 8%, and unemployment fell to 6%, with the highest unemployment indices being recorded in the country's eastern provinces.

The balance-of-payments current account deficit narrowed to US$ 350 million, thanks to a smaller trade deficit and a larger inflow of current transfers, while net factor payments were practically unchanged. The capital account surplus is estimated at US$ 380 million, making possible a slight rise in the meagre level of international reserves.

Exports of goods and services grew faster (3.8%) than imports (2.9%), despite a deterioration in the terms of trade. Higher external merchandise sales (1.8%) were due to the larger volumes exported (6%), since prices fell (4%), especially in the case of sugar, although international nickel prices rose somewhat. The higher value of imports of goods (2.8%) was due to the larger volume of goods imported (2%) and higher prices (0.8%).

The outstanding external debt balance eased back slightly (-1.9%) to around US$ 11 billion, and conversations began with the Paris Club to negotiate multilateral restructuring of the official debt. Between 1998 and 1999 renegotiation agreements were signed with supplier companies from Japan and the official export credit guarantee agencies of Italy, the United Kingdom and Belgium; negotiations are still under way with other countries.

Guyana[5]

The economy of Guyana began to grow again (6.8%) in the second quarter of 1999, following a 2.4% contraction in GDP in the first quarter. This resulted in growth of 2.1% for the first half of the year as a whole, which represents a recovery compared with the same period in 1998, when there was a downturn of -2.4%. Real growth for the calendar year is projected at 2%, led by recovery in the agriculture sector. Consumer prices have risen by 5.8% in the year to date, while the local currency has depreciated by 7.1% against the United States dollar. The Government has embarked on a series of reforms designed to open up the economy and improve the economic and regulatory environment.

The economic policy framework in 1999 included measures aimed at reversing the contraction of output and reducing poverty, through sound macroeconomic social and public-sector reforms and ongoing support for the private sector. The key macroeconomic objectives for 1999 are the following: real GDP growth of 1.8%, based on a recovery in agriculture; inflation of 5.5%; and a sustained improvement in the balance of payments current account, where larger export volumes should help improve the foreign trade surplus. External budgetary financing from bilateral and multilateral sources is also projected to remain at a high level.

In fiscal policy, efforts are being made to increase public expenditure on development projects and to improve tax administration (the authorities are concluding a study aimed at introducing Value Added Tax). Monetary policy was adjusted in order to achieve the targets set for international reserves and inflation.

The government embarked on a series of reforms to open up the economy and improve the economic and regulatory environment in terms of its impact on financial activities, the public sector and the business environment. Trade policy continued to move in the direction of a freer market economy, and steps are being taken to reduce maximum import tariffs, in accordance with commitments made by the Government in the common external tariff agreement. During the year, several programmes were implemented to stimulate employment, with emphasis on micro-enterprise development, the promotion of labour-intensive investment projects in the public sector, and training activities.

A new Bank of Guyana Act was passed to ensure the autonomy, capitalization and reorganization of the

5 Guyana is included in the Caribbean section of this report for institutional, not geographical, reasons.

GUYANA: MAIN ECONOMIC INDICATORS

	1997	1998	1999[a]
	Annual rate of variation		
Gross domestic product	6.2	-1.3	2.0
Consumer prices (yearly average)	3.6	4.6	5.3
Real exchange rate	-2.5	1.7	10.5[b]
	Percentages		
Deposit rate	8.6	8.1	9.3[c]
Lending rate	16.9	16.9	17.1[c]
	Millions of dollars		
Exports of goods and services	593	549	578
Imports of goods and services	642	601	620
Current account	-105	-97	-83

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates and projections.
[b] Average for January-March.
[c] At end of June.

Bank. From now on, the Bank will not be obliged to lend to the Government if doing so would be incompatible with the established inflation and reserves targets. The Government pressed ahead with its privatization programme aimed at streamlining its operations, and progress was also made in the reform of the civil service, with the finalization of plans for the reorganization and restructuring of the Ministries of Finance, Education and Health. Income tax legislation was amended to reintroduce tax holidays as an incentive to investment.

Economic activity was bolstered up by agriculture. The rice harvest at the end of the first half of 1999 came to 193,608 tons - some 20,000 tons above the target set and a 38% improvement on the harvest at the same point in the previous year. These results were helped by the good weather which prevailed, despite the threat from “La Niña”. Yields and paddy quality were both very high. Although sugar production declined by 5.7% in the first quarter of 1999, the first crop of the year came in at 125,226 tons: the best first harvest for 13 years and a 39% improvement on the 1998 figure. In the first half of 1999, timber production was up by 3.1% compared with the same period of the previous year, totalling 231,537 cubic metres.

Mining and quarrying shrank by 8%, partly as a result of reduced gold and bauxite production. The volume of bauxite mined was down by 13% compared with the same period a year earlier, reflecting shrinking markets, since production is linked to actual and expected sales. The total value of declared gold production declined by 6% because of a fall in prices. The manufacturing sector appears to have grown by 1.6% in the first half of 1999, with significant increases in paints, animal feed and laundry soap.

Inflation showed an upward trend. The consumer price index (CPI) for the capital, Georgetown, was up by 2.1% at the end of the first quarter, but by the end of June 1999 it had increased by 5.8%. Price hikes in foodstuffs and gasoline were mainly responsible for this increase.

The overall balance of payments deficit narrowed to US$ 12 million in the first half of 1999, compared with US$ 18.3 million a year earlier. This was the result of a significant turnaround in the current account, which went from a deficit of US$ 48.4 million to a surplus of US$ 13.6 million. This was due to exceptional circumstances, however, as it was connected with a strike in the public sector that held up the clearance of merchandise imports for a lengthy period, thereby causing an apparent surplus on visible trade.

Earnings from exports of goods remained relatively stable, amounting to US$ 238.5 million, with increases in timber and sugar exports being offset by lower sales in other export categories. Net service payments increased significantly, while there was a slight drop in the net inflow of transfers.

The first half of 1999 saw a net inflow of US$ 11 million on the capital account (the corresponding figure for 1998 was US$ 16 million). This reduction is explained by a lower level of private-sector investment -mainly aimed at the telecommunications and mining sectors- and smaller inflows to the public sector, which dropped to US$ 3 million compared with US$ 8 million in 1998. Disbursements from multilateral and bilateral sources fell by 34% to US$ 14 million. The negative balance on short-term capital flows improved during the first half-year from -US$ 8 million at the end of June 1998 to -US$ 4.5 million for the same period in 1999. The overall balance of payments deficit was financed by drawing down net foreign currency assets held by the Bank of Guyana.

Haiti

The performance of the Haitian economy in 1999[6] was rather modest (2.5%) in view of the amount of catching up that the country needs to do after several years of little growth. The shortage of foreign financing due to the political problems that still cloud the national scene has been an important factor in the economy's poor performance. In general, the macroeconomic indicators are favourable, with inflation at 10% and a fiscal deficit equivalent to 2.6% of the product. The sectors that have been strongest in recent years —construction, maquila activities and commerce— posted very small gains, in some cases well below the previous year's. The conditions attached to disbursements of foreign aid, contingent on the effective action of a new legislative body, have held up projects dependent on the major international funding sources.

As of the third quarter, fiscal policy had succeeded in meeting the targets agreed with the IMF, resulting in 2.5% more revenue than projected. In the last quarter, however, investment spending was almost twice the target amounts, bringing overall expenditure to a level 7.5% above the target for the fiscal year. Additional outlays connected with hurricane Georges and the funding of the electoral process represented close to 6% of total spending. The positive results in terms of public-sector income were due in large measure to revenue from customs tariffs (18%), direct taxes (35%) and indirect taxes (13%). The fiscal deficit came to 2.6% of GDP, slightly more than the preceding year's 2.4%, and was financed almost entirely by the Central Bank, since net external financing was negative. Budget aid promised by the European Union (US$ 21 million) was not forthcoming because the political objectives on which it was contingent were not met as scheduled.

In order to keep inflation under control, the authorities applied a tight, restrictive monetary policy. Financial indicators with respect to both the public sector and credit were generally beyond the figures agreed with the IMF. Credit was limited by the compulsory reserve requirements (26.5% and 12.5% respectively on local-currency and dollar deposits), while lending rates were stable (22.5% and 12.5% respectively for local currency and dollars). Deposit rates fell from 14.8% to 6.8% for gourdes and from 7% to 6.5% for dollars. This represented an increasing intermediation spread and a net preference for government securities (BRH bonds, the amount of which more than doubled), with yields that stood at the end of the fiscal year at attractive levels between 6.8% and 10.3%.

The dollarization of the economy seems to have increased. Dollar deposits gradually increased to almost 32% of total deposits (compared with 29% in

6 The period analysed here is the fiscal year 1998-1999, which began in October 1998 and ended in September 1999.

HAITI: MAIN ECONOMIC INDICATORS

	1997	1998	1999[a]
	Annual rate of variation		
Gross domestic product	1.5	3.2	2.5
Consumer prices	15.6	7.5	10.1
Real effective exchange rate[b]	-14.1	-8.3	-5.4
Terms of trade	8.3	4.1	-2.0
	Percentages		
Fiscal balance/GDP	-2.0	-2.4	-2.6
	Millions of dollars		
Exports of goods and services	364	462	515
Imports of goods and services	859	994	1 190
Current account	-60	-75	-75
Capital and financial account	90	110	95
Overall balance	30	35	20

Source: See the statistical appendix.
[a] Preliminary estimates.
[b] A negative rate signifies and appreciation of the currency in real terms.

1998), while dollar loans, which represented less than one-third of all loans in 1998, rose to 40% by September 1999.

Gourde-dollar parity remained generally stable at an average of 16.7 to 1 throughout 1999, with slight rises in November 1998, and February and September 1999. This is remarkable, considering that practically no foreign exchange entered the country in the form of foreign aid, while export activity was very modest. The average monthly decline of the currency was 0.4%, and the Central Bank made routine interventions in the exchange market.

In the area of structural reform, the cement firm "Ciment d'Haïti" was privatized in May, with the transfer of 65% of the equity to a mixed Haitian-Swiss-Colombian private-sector consortium. The downsizing of the public sector (a 12% reduction in posts) concluded in December 1998 with a total of 6,360 employees opting for voluntary or early retirement or other arrangements. Work began on rehabilitating the National Credit Bank, the Government's main banking agent. Privatization in the areas of telephone services (TELECO), electricity (EDH) and ports and airports is still pending. Other reforms were held up by the legislative standstill.

Notwithstanding the notable indications of macroeconomic stability, the weak growth of investment (4%) and consumption (1.6%) is a source of concern, not only because the low levels are insufficient to meet the country's urgent needs, but also because they are even lower than the levels registered in recent years. Sectoral performance followed a similar pattern, as with the exception of agriculture (2.3%) and mining (6.5%) all sectors reported smaller gains than in the previous year. In particular, growth in construction (4.6%) was down by one half. Since the level of investment (closely associated with public-sector infrastructure activity) changed little, it would appear that private construction went down even more sharply.

The advances made in agrarian reform still seem quite fragile. Domestic agricultural production was also adversely affected by the heavy penetration of the market by imports in the wake of the indiscriminate dismantling of trade barriers in 1995. Sectoral studies indicate that the flow of imports, rather than being a source of substantial reductions in consumer prices, primarily represented an opportunity for the import-sector monopoly to reap the benefit of larger profit margins.

Inflation projections were exceeded, and at the end of the year inflation was running at a 10% annualized rate, though the 12-month average (8.1%) was less than the previous year's figure of 12.7%. Foodstuffs, beverages and tobacco prices rose least (3.9%), probably because of the large proportion of consumer products imported at very low or zero tariffs. This did not, however, prevent a 7.5% reduction in the real minimum because of lower labour demand.

Despite the unfavourable environment, the country's external accounts turned in a relatively good performance, keeping the current account at –US$ 75 million (1.8% of GDP), not far from the previous year's figure. The merchandise trade deficit rose to US$ 405 million as a result of a 15% increase in exports and a 16% rise in imports. The strongest sector was the maquila industry (29%), while, on the down side, coffee fell close to 40%. The food import bill grew 26%, representing close to one-third of total imports. Higher unilateral transfers, however, partially compensated for the increased trade deficit.

The net reserves increased by US$ 30.7 million thanks to increased financing in dollars from both multilateral (close to 65% came from IDB, USAID and IMF) and bilateral sources (20% came from France and Italy).

Jamaica

According to estimates, the decline in GDP for the year (1%) will be higher than in 1998. This negative performance must be viewed against the background of a fragile financial sector and a delicate macroeconomic balancing act aimed at maintaining the country's economic stability, keeping the exchange rate stable and reducing the fiscal deficit. Inflation was kept under control, standing at 5% at midyear. This welcome development made it possible to take a more flexible approach to monetary policy.

Economic policy was aimed at consolidating previous progress towards stable conditions (namely, low inflation and a stable exchange rate), fostering growth of the product and reducing the fiscal gap in order to achieve a balanced budget for the fiscal year 2000-2001. In keeping with the government's fiscal objectives, new tax measures were introduced to correct the deficit, which was 7.5% of GDP for the 1998-99 fiscal year. The most important changes were increases in the special consumption tax on certain petroleum products, higher taxes on cigarettes (+10%) and alcoholic beverages (+33.3%), and higher motor vehicle license charges (+33.3%). Taxes were also raised on gambling and betting as well as on customs processing fees. Following a series of general strikes early in 1999, the government eased tax increases in various a reas. It is estimated that the new tax structure will provide around J$ 4.4 billion more tax revenue.

Monetary policy, aimed at reducing inflation by controlling the money supply, led to a 39.8% drop in net domestic assets, offsetting a 1.5% increase in the Bank of Jamaica's net international reserves. During the first six months of 1999, lower core inflation projections made it possible to lower reserve requirements. Thus, the Bank of Jamaica reduced the cash reserve ratio for commercial banks to 17% as well as easing the non-cash reserve ratio, which had not been changed since June 1995, from 22% to 18%. Though M2 increased in April and May 1999, the total amount of loans and advances outstanding at the end of May 1999 was 7.2% down from its December 1998 level, reflecting a decline in lending.

The high level of real interest rates and the low level of effective demand continued to limit credit growth. In the non-banking sector, credit unions continued to grow strongly, with their consolidated balance increasing from J$ 9.4 billion at the end of December 1998 to approximately J$ 10.4 billion by the end of March 1999. With the real estate market remaining fairly quiet, consolidated data for construction firms as of the end of April 1999 showed a drop to J$ 41.3 billion from the level of J$ 45.1 billion registered at the end of December 1998.

Still feeling the impact of the 1998 recession, the economy remained sluggish, and it is estimated that the rate of change of GDP was lower during the period from April to June 1999 than during the previous quarter and the corresponding months of 1998. This situation must be understood in the context of interest rates which, though beginning to fall, were still high and may therefore explain the low level of investment activity.

One factor that contributed to the economic slowdown during the second quarter of 1999 was the relatively poor performance of the goods-producing sectors. Agricultural output was only 0.7% higher than

JAMAICA: MAIN ECONOMIC INDICATORS

	1997	1998	1999[a]
	Annual rate of variation		
Gross domestic product	-2.1	-0.7	-1.0
Consumer prices	9.2	7.9	5.2
Real effective exchange rate[b]	-14.1	-6.1	-7.7

Source: See the statistical appendix.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

in the second quarter of 1998 (production for domestic consumption rose 2.2%, but exports fell 6.0%). Mining posted a 1.1% gain despite a drop in exports, with the 7.1% increase in the production of alumina more than offseting the drop in aluminium production. Construction declined in the first half of 1999 as a result of credit restrictions and weakness in other sectors, particularly financial services and manufacturing. The manufacturing sector continued to perform feebly in the second quarter despite some improvements in chemicals and chemical products and in some food-processing subsectors.

The main services subsectors showed sustained growth, enjoying the ongoing benefit of earlier investment in public services and infrastructure. Electricity sales rose 6.3% in the second quarter, thanks to increased consumption in all categories, but particularly in large systems. The performance of the tourism sector in the second quarter was uneven, as visitor arrivals registered a small gain but the sector's earnings declined. Growth in the distributive sector continued to slacken, reflecting a significant slowdown in the growth of consumer demand.

With a net loss of jobs in manufacturing and construction, whose performance continued to be weak, the unemployment rate rose slightly in April to 15.8% (as against 15.4% in April 1998).

Core inflation remained relatively low, rising by 0.9% for the second quarter, compared with an increase of 1.1% for the same period of 1998. As a result of seasonally higher prices in the food and beverages category and new tax measures announced in the 1999-2000 fiscal budget, overall inflation for the second quarter was 2%. Consequently, inflation for the first half of the year was 1.7%, with an annualized rate of 5%.

During the first half of 1999, the current account balance improved in comparison with the corresponding period in 1998, moving from a US$ 1.4 million deficit to a US$ 15.4 million surplus. This was due to higher income from tourism, lower repatriation of profits by bauxite companies, lower outflows on the transportation services account and increased remittances. Foreign debt is expected to decline from its 1998 figure of US$ 3,306.4 million to an estimated US$ 3,030 million by December 1999.

Available information for the period from January to August 1999 indicates that the merchandise trade deficit fell 4% from its level of a year earlier, standing at US$ 999 million. This reduction is largely a result of the 7% drop in imports, which affected all three types of goods: consumer goods (-2.1%), raw materials (-9.5%) and capital goods (-7.0%). The value of exports of goods also diminished (-10%). In absolute terms, however, the net effect on the visible trade balance continued to be positive. In the first eight months of 1999, exports covered only 45% of the import bill.

Dominican Republic

For the fourth year in a row, the Dominican Republic enjoyed a high rate of growth (7%). This was primarily because of strong domestic demand and sustained flows of funds into the country in the form of foreign direct investment, tourism and family remittances.

Economic policy focused on the one hand on avoiding overheating of the economy due to the sustained rapid growth since 1996, and on the other on preventing an increase of imports that could create balance-of-payments constraints. On other fronts, trade liberalization and privatization moved forward slowly.

The central government virtually balanced the fiscal accounts, with a deficit of only 0.1% of GDP. Revenue increased 6%, less than the year before, as receipts from the oil price differential fell, though in order to counteract this the price of oil was raised and the commission on currency exchange transactions was increased from 1.75% to 5%.

Reversing the pattern of preceding years, total expenditure increased by 13% due to increased capital expenditure related in part with reconstruction work. The growth rate of current spending fell despite higher current transfers (17%). The effects of the reform of State-owned enterprises are expected to be felt next year.

A raise in doctors' pay had some effect on total expenditure, though it will be offset by increases in taxes on motor vehicle licenses, gun permits and forms for medical certificates.

Lastly, the government began to take measures to put the domestic debt on a sounder footing by issuing six-year fixed-interest bonds and debt recognition certificates.

At the beginning of the year, the government kept liquidity under control by limiting net domestic public borrowing, deferring the redemption of participation certificates held by commercial banks and freezing some of their excess reserves. Between June and October, the stability of prices and the exchange rate opened the door to more flexible monetary policy which allowed interest rates to fall and brought loan money into the private sector. In October, the authorities imposed restrictions on commercial banks' loan portfolios to ensure that lending increased at a pace consistent with inflation and growth targets.

Thus, the money supply and narrow money (M1) grew less than 10%. Broad money (M3) grew 26% between January and October, reflecting a significant increase (99%) in dollar deposits. Financial regulations

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1997	1998	1999[a]
	Annual rate of variation		
Gross domestic product	7.1	6.0	7.0
Consumer prices	8.4	7.6	6.6
Real effective exchange rate[b]	2.4	8.6	6.9
Terms of trade	4.4	2.7	-0.9
	Percentages		
Unemployment rate	15.9	14.3	…
Fiscal balance/GDP	0.7	1.0	0.1
	Millions of dollars		
Exports of goods and services	7 061	7 481	8 110
Imports of goods and services	7 780	8 917	9 580
Current account	-162	-338	-500
Capital and financial account	258	351	585
Overall balance	96	13	85

Source: See the statistical appendix.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

were implemented to prevent short-term manipulation of speculative positions in foreign currency.

On the reform front, the authorities privatized the Dominican Electricity Corporation, leased the sugar refineries of the State Sugar Corporation for a period of 30 years and granted a private-sector concession for ports and airports.

Overall demand increased 13%, driven by gross domestic investment (up 19.4%), consumption and, to a lesser extent, exports of goods and services. Public and private investment benefited from an increased inflow of foreign exchange, the good position in which the commercial banks found themselves (with consequent greater availability of loan funds) and the promising economic growth expectations.

Public and private consumption increased by 7%, largely due to the effects of remittances from abroad and higher real balances.

Exports of goods and services rose only slightly, because of a decline in traditional exports and slower growth in the activities of the free zones.

The agricultural sector grew 4% thanks to the recovery in seasonal and traditional crops despite the after-effects of hurricane Georges. The manufacturing sector was up 5% due to increases in non-sugar activities. In-bond processing (maquila) activities slowed (-5.3%) because of lower demand for textile products in the United States.

Construction was the strongest sector (+19.5%), benefiting from the increased liquidity in the commercial banks. Private-sector activity was focused on residential building, malls and hotels, while public-sector construction was mainly in infrastructure, social projects and reconstruction work.

The hotel/bar/restaurant sector grew 11% thanks to the rise in hotel occupancy rates, while communications posted a 16% gain due to the good results in the telephone services subsector.

The electricity and water sector grew 8.3% (January-September) due to more power generation by gas turbine plants and high water levels in dams.

Cumulative inflation was close to 7% as a result of the recovery of food supply after the effects of the hurricane, the tight monetary policy and the stable exchange rate. Higher commissions on currency exchange transactions and higher domestic fuel prices also played a role in this respect as from October.

Wages grew only slightly (2.8%), under the policy providing for a nominal payroll freeze. There was an increase in health professionals' pay, however (a 65% rise between 1999 and 2000).

The overall balance of payments position was positive (+US$ 78 million) as the current account deficit (2.8% of GDP) was covered by foreign direct investment (US$ 1.4 billion).

Exports of goods (+5%) continued to be driven by activity in the free zones, although this grew less rapidly than before due to lower demand for textile products. The value of the country's exports of domestically produced goods dropped because of lower international prices and a decline in the exportable supply.

Imports (+8%) were stimulated by increased consumption, the need for machinery and equipment for an expanding economy, and higher fuel prices on the international market. Oil imports grew 13% between the January-September 1998 and the same period of 1999. Towards the end of the year, import activity also began to reflect the increase in the commission on currency exchange transactions.

The services balance was positive as a result of the increase in the number of tourists entering the country. Net transfers from abroad fell slightly from their 1998 level.

The capital and financial account ended the year with a surplus of US$ 585 million thanks to foreign direct investment of US$ 1.4 billion. Net reserves in September were US$ 478 million, a 37% increase over the 1998 figure. Total foreign debt was US$ 3.5 billion. Service payments on the foreign debt went down as a result of arrangements for deferred payment made with the Paris Club and Venezuela in the light of the effects of hurricane Georges.

Trinidad and Tobago

With the boost given as from the second quarter of 1999 by the initiation of liquefied natural gas production, the economy is estimated to have grown by 7% in real terms in the first half of the year. Thanks to strong performance in the oil and manufacturing sectors, similar growth is expected for the remainder of the year. These positive results were accompanied by an increase in the employment rate and lower inflation, though there continued to be a fiscal deficit. Despite the surplus registered in the current account, the overall balance of payments posted a deficit of US$ 71.4 million in the first quarter of 1999, due to net capital outflows.

According to the information available for the first half of the year, the fiscal deficit remained close to its 1998 level of −1.1%. The gap was covered by an overdraft on the Central Bank. There was consequently an expansion of the money supply, without backing from inflows of foreign currency. Indeed, there was a fall in the international reserves in the first quarter. The monetary authorities responded with open market operations to reduce the excess liquidity in the economy.

The government continued with its policy of reforms aimed at increasing factor productivity and creating markets for certain goods. To this end, a free trade agreement was signed in 1999 between the Dominican Republic and the Caribbean Community (CARICOM) countries Provisional agreements were also made for the entry on preferential terms of certain Colombian products. In addition, bilateral trade and investment accords were negotiated with Mexico and the MERCOSUR countries.

The positive results of the first half of 1999 suggest that the sustained growth pattern displayed by the economy during the ast five years will persist this year also. Nevertheless, agricultural exports were disappointing. Cacao production fell from 1.1 million tons in the first quarter of 1998 to 286,000 tons in the

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1997	1998	1999[a]
	Annual rate of variation		
Gross domestic product	3.2	3.3	7.0
Consumer prices	3.5	5.6	2.6
Real effective exchange rate[b]	1.0	-5.9	-5.7
	Percentages		
Unemployment rate	15.0	14.2	13.6

Source: See the statistical appendix.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

first quarter of 1999 due to unfavourable weather conditions in 1998 and the decision of some large producers not to harvest because of increased labour costs. Coffee production fell 37.4% to 220,500 tons in the January-March 1999 period (production for the corresponding period in 1998 was 352,100 tons).

Raw sugar production from the harvest ending in June 1999 was 68,300 tons (3,600 tons less than for the same period in the previous year). Various factors contributed to this decline: adverse weather conditions, deterioration of milling facilities, fires in the canefields and delays in the payment of growers. The result was a worse cane-to-sugar conversion factor this year (13.7). Sugar exports came to 64,300 tons in the first half of the year, an increase of 11% over the same period in 1998.

The petroleum sector improved, thanks to the recovery in oil prices and the entry into production of a large refinery. The result was a 3.1% increase over the first quarter of 1999. Production of crude rose slightly in the second quarter, reaching 11.4 million barrels, compared with 11.3 million barrels in the first quarter. The outlook is positive, since two companies announced the discovery of new reserves. A liquefied natural gas plant with an annual capacity of 3 million tons went on line this year. Exports of liquefied gas from the plant began in April 1999, and by 19 July approximately 750,000 tons had been shipped. There was also a large increase in the production of natural gas liquids.

Methanol production kept on its strong upward course in the second quarter despite falling international prices. By the end of 1999, the country's fifth world-class methanol plant should be in production, providing additional installed capacity of 82,500 tons a year. The growth rate of production fell to 1.8% in the second quarter, but this was nevertheless enough to leave production for the first two quarters 27.2% higher than the year before. The fertilizer sector felt the negative effects of excess supply and falling international prices.

Inflation, measured as a function of the retail price index, remained moderate in the second quarter, increasing 0.1% over the previous quarter. This translated into a projected annual rate of 2.6%: considerably less than the 6.5% increase registered in 1998. As in the first quarter, wholesale prices increased more than retail prices, but consumer prices do not seem to have been affected.

In the period from November 1998 to May 1999, the minimum wage index for all economic activities rose 1.8% in comparison with the same period a year earlier, reflecting the entry into operation of the Minimum Wage Act. Employment rose 2.8% between October 1998 and March 1999, the largest increases in the employment rate being registered in manufacturing, finance, insurance, real estate and business services. Unemployment, which was 15.1% in the last quarter of 1998, dropped to 14.1% in the first quarter of 1999.

In the same period there was a current account surplus of US$ 47.9 million: the first surplus in two years. In particular, the merchandise trade balance showed a surplus of US$ 20.5 million in the first quarter of the year as a result of some expansion of exports and three consecutive quarters of declining imports.

There was a change of trend in the capital account, however, with a first-quarter deficit of US$ 119.3 million following on a year in which surpluses averaging US$ 181.4 million had been registered in several quarters. The change was due both to a decline in direct investment, which slid to US$ 97.4 million per quarter from a 1998 average of US$ 182.9 million, and to increased repatriation of capital by foreign investors. The overall balance of payments showed a deficit of US$ 71.4 million for the first quarter, so that the external assets position deteriorated. Net foreign assets, which had begun the year at US$ 984.8 million, were down to US$ 892.5 million at the end of June 1999.